

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
INFRASTRUCTURE STATE REVOLVING FUND PROGRAM (ISRF)**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant: McKinleyville Community Services District	Amount Requested:	\$1,000,000												
Name of Project: Ramey Pump Station Upgrade Project (Project)	Requested Financing Term:	20 years												
Project Location: Corner of North Bank Road (State Hwy 200) and Azalea Avenue McKinleyville, CA 95519	Interest Rate:	3.37% ¹												
	Tier:	Tier 1												
Project Description: The Project consists of the design, construction, and improvement of the Grant A. Ramey Pump Station including the installation of two new vertical turbine pumps equipped with variable frequency drives and the tie-in of those pumps to existing lines, the upgrade of electrical service equipment to support the additional load, installation of a new generator, construction of a new concrete pad and the installation of an emergency chlorination system.														
Use of Financing Proceeds: Proceeds will be used for Project costs of construction, construction contingency, engineering/architectural/design, construction management, and the I-Bank fee.														
Source of Repayment: Subordinate lien on net System revenues and the System's water enterprise fund	Form of Financing Agreement: Installment Sale Agreement													
Scoring Criteria: <table> <tr><td>Project Impact</td><td align="right">30</td></tr> <tr><td>Community Economic Need</td><td align="right">10</td></tr> <tr><td>Land Use/Environmental Protection/Housing Element</td><td align="right">30</td></tr> <tr><td>Leverage</td><td align="right">6</td></tr> <tr><td>Readiness</td><td align="right"><u>10</u></td></tr> <tr><td>TOTAL</td><td align="right">86</td></tr> </table>	Project Impact	30	Community Economic Need	10	Land Use/Environmental Protection/Housing Element	30	Leverage	6	Readiness	<u>10</u>	TOTAL	86	Applicant Score:	
Project Impact	30													
Community Economic Need	10													
Land Use/Environmental Protection/Housing Element	30													
Leverage	6													
Readiness	<u>10</u>													
TOTAL	86													
I-Bank Staff: Karl A. Whittington	Date of Staff Report: February 24 2011													
Date of I-Bank Board Meeting: March 1, 2011	Resolution Number: 11-04													
Staff Recommendation: Staff recommends approval of Resolution No. 11-04 authorizing financing to the McKinleyville Community Services District for the Ramey Pump Station Upgrade Project, subject to conditions contained therein.														

¹ Rate as of February 1, 2011

PROJECT DESCRIPTION

The McKinleyville Community Services District (District) requests ISRF Program financing for the Ramey Pump Station Upgrade Project (Project). The Project is located within the McKinleyville Community Services District in the unincorporated community of McKinleyville in Humboldt County (County) (See Exhibit 1—Project Location Maps). The Project consists of the design, construction, and improvement of the Grant A. Ramey Pump Station (Pump Station) including the installation of two new vertical turbine pumps equipped with variable frequency drives (VFD) and the tie-in of those pumps to existing lines, upgrading electrical service equipment to support the additional load, installation of a new generator, construction of a new concrete pad and the installation of an emergency chlorination system.

The Pump Station was originally designed and built in 1972 and consists primarily of a single 40 horsepower (hp) water pump and four 20 hp water pumps (Existing Pumps) that serve four water storage tanks, two at both Cochran Road and Norton Road (Storage Tanks Sites). The District states in its Financing Application (Application) and again in its Notice of Exemption (NOE) that the Existing Pumps operate near capacity during times of peak summer demand, the hours of highest electricity costs, reducing operating efficiencies to unsatisfactory levels and possibly causing the pumps to operate outside their design condition.

The Project will upgrade the aged and inefficient Pump Station. In its Preliminary Application, the District states that the Project will improve its ability to maintain adequate levels in storage reservoirs to enhance water supply for peak use periods and fire flows for the entire service area. The Project will support the community's planned residential and commercial expansion as discussed in the *Humboldt County General Plan Update Planning Commission Hearing Draft, November 20, 2008* (General Plan Draft), by ensuring a safe, stable and economical means of maintaining pressure and reservoir levels.

The Project consists of the following components:

Installation of two new vertical turbine pumps (New Pumps), tie-ins, and construction of concrete pad. Installation of two 240 hp pumps, each equipped with VFDs, replacing the Existing Pumps. Tie-ins will be required at both an existing 18-inch suction line and an existing 18-inch discharge line. A concrete pad approximately 15 feet by 30 feet will be constructed within the existing footprint of the Pump Station prior to installing the New Pumps.

Due to the difference in hydraulic demands from each of the Storage Tank Sites and to maximize energy efficiency, the pumps will be sized specifically for the Norton Tanks and the program that controls the VFDs will compensate while pumping to fill the Cochran Tanks. Each pump will be capable of meeting a 4.5 MGD demand over a 24 hour pumping period and the second pump will act as a back-up for redundancy. The Norton Tanks and Cochran Tanks are in-line with each other, and each pump will be capable of providing flow to the other tank with adequate efficiency.

Electrical service equipment upgrade. The New Pumps require new electrical service equipment to provide additional ampacity needed to support additional loads. (Ampacity is defined as the maximum amount of current a cable can carry before sustaining immediate or progressive deterioration. The Pump Station currently has 200 amp service.) The electrical service equipment component will provide a minimum of 400-amp service to a distribution switchboard, equipped with a main breaker and feeder breakers to the New Pumps and to the existing motor control center.

Generator installation. A new, more energy efficient generator will replace the existing 150 kW generator to run miscellaneous Pump Station loads (such as lights and controls), plus the larger (240 hp) pumps.

Emergency Chlorination. The Project also includes the installation of a new emergency chlorination system. This will allow the District to provide its own chlorination treatment on an emergency basis in the event that the treated water purchased from the supplier does not meet adequate safety standards.

The District commenced construction in September 2010 and anticipates completion the end of April 2011.

Project design, materials, and techniques will result in energy conservation due to increased efficiency of the New Pumps, which are equipped with variable frequency drives. The District estimates that electrical usage will be reduced by approximately 56,900 kilowatt hours resulting in cost savings of approximately \$12,700 helping the District maintain affordable water rates. Additionally, the District estimates that the Project will save approximately 48,900 pounds of carbon dioxide equivalent greenhouse gas emissions that will help meet the State's AB 32 goals for greenhouse gas reduction to combat global warming conditions.

The Project will assist with the realization of several stated goals of the General Plan Draft and the McKinleyville Community Plan, Adopted December 2002, (McKinleyville Plan) within the General Plan. The General Plan Draft projects an overall population growth rate of approximately nine percent between 2010 and 2030, and the community of McKinleyville is identified as one of the County's primary growth areas. Throughout the General Plan Draft update process, the condition of existing public water systems within the County is a stated significant concern:

- The Economic Development Element (ED Element) declares that, "[q]uality of life is one of Humboldt County's most important assets for economic development" and that many water systems for cities and unincorporated communities have reached the limit of their planned capacity or are failing, resulting in pollution concerns, exposing residents to health hazards and imposing limits on new housing and business development. The ED Element concludes that the lack of adequate and expandable water and infrastructure severely inhibits the communities' ability to provide space for new businesses to locate, and that the upgrading, expansion, and construction of a new water system is necessary to expand opportunities for business to locate and to grow. A goal of the ED Element is: "Public Water and

Wastewater. Adequate public water and wastewater facilities to accommodate workforce housing and provide opportunities of businesses to grow.”

- The Community Infrastructure and Services Element (IS Element) cites the age and deteriorating condition of the County’s water systems, and finds that all service providers need to invest in maintenance and upgrades required to keep their systems in compliance with state standards.” A stated goal of the IS Element is: “Adequate Infrastructure and Services. Well maintained public infrastructure and services supporting existing development with an ability to expand to satisfy the needs of new development.”
- The Land Use Element states that “[p]ossibly the highest priority of the General Plan is revitalization of urban development areas to provide for business expansion, workforce housing opportunities and focused rehabilitation and expansion of infrastructure.”

Specific goals of McKinleyville Plan include (1) developing a stable and diverse economic base supporting long term local employment and (2) establishing a positive business climate in McKinleyville and promoting McKinleyville as a desirable place to live, work, and visit. The McKinleyville Plan recognizes a need to diversify the economic base and encourage additional employment and proposes three sites for industrial/commercial development near the Arcata-Eureka Airport, the County’s only regional airport. The business park adjacent to the airport encompasses approximately 53 acres, providing land for light manufacturing, regional visitor-serving facilities, and industrial/commercial opportunities for the community.

PROJECT SOURCES AND USES

Project sources and uses are as follows:

Sources and Uses of Proceeds				
Uses	Sources			
	I-Bank	District	Commission ¹	Total
Construction & Contingency	\$867,176		\$133,862	\$1,001,038
Engineering/Design/Architectural/Permits/Environmental/Fees/Legal Review/Construction Management	\$122,824	\$62,672	\$31,238	\$216,734
Machinery/Equipment & Supplies & Miscellaneous		\$40,000		\$40,000
I-Bank Fee	\$10,000			\$10,000
Total	\$1,000,000	\$102,672	\$165,100	\$1,267,772

Source: The District

¹ Means the California Energy Resources Conservation and Development Commission.

The District has received a loan under the American Recovery and Reinvestment Act of 2009 from the California Energy Resources Conservation and Development Commission (Commission) for an Energy Conservation Assistance Account Loan (ARRA Loan) in the amount of \$165,100. In its Resolution 2010-16, adopted

September 15, 2010, the District committed the loan funds to the Project. The District provided a copy of the ARRA Loan agreement (ARRA Loan Agreement) executed by the District on June 15, 2010 and by the Commission July 19, 2010. The ARRA Loan Agreement reflects \$165,100 has been encumbered for the Project and that funds under the ARRA Loan Agreement shall be disbursed on a reimbursement basis based upon invoices submitted by the District.

The District committed additional District funds in the amount of \$250,000 pursuant to Resolution 2011-14, adopted January 19, 2011.

ELIGIBILITY CRITERIA

The District and Project meet all of the ISRF Program statutory and supplemental threshold eligibility criteria except for the minimum loan underwriting criteria debt service coverage test requirement, which shall be met prior to the execution of the proposed Installment Sale Agreement as a result of the District's establishment of a rate stabilization fund.

COMMUNITY INFORMATION

McKinleyville, with an approximate population of 14,500 persons, is an unincorporated community in the County of Humboldt (County) in the north coastal region of California, 300 miles north of San Francisco and 20 miles south of the City of Eureka, the largest city and county seat of the County. McKinleyville borders the Pacific Ocean and has a mild climate year round with frequent fog and moderate to heavy precipitation mainly between October and April. Because of the combination of coastal, mountain and valley areas, residents have the opportunity for a wide range of recreational activities. Just minutes from McKinleyville, one can surf, fish for salmon and steelhead, hike underneath the world's tallest trees and bike the Pacific Coast Trail.

McKinleyville's economic base is primarily that of a residential community with local and some regional commercial services. Limited agricultural production, including timber production, and light manufacturing contribute to McKinleyville's economy. McKinleyville is the site of the County's only regional airport facility, the Arcata-Eureka Airport (ACV), and the adjacent 53-acre Airport Business Park.

Opportunities for a higher education are available through the main branch of the College of the Redwoods, a community college system offering comprehensive programs in many academic and technical fields, located in Eureka as well as through Arcata's Humboldt State University, a four-year college with a full spectrum of curriculum and graduate programs, approximately a 10-minute drive from McKinleyville.

GENERAL DISTRICT INFORMATION

Per County Resolution 70-36, the District was established and duly organized on April 14, 1970, under the Community Services District Law, pursuant to Title 6, Division 2 of the Government Code for the purposes of supplying water for domestic use, irrigation, sanitation, industrial use, fire protection, and recreation. Since 1970, the District's activities have been expanded three separate times: in 1972 to add street lighting powers, in 1985 to expand recreational powers, and in 1995 to authorize construction of the McKinleyville Library. District boundaries encompass 12,140 acres. A five member Board of Directors elected to four-year rotating terms in odd-numbered years governs the District.

CREDIT ANALYSIS

System Characteristics

System Description. The District owns, operates and maintains a water system (System) originally constructed in 1972. The System consists of approximately 84 miles of water mains; six storage tanks, the Pump Station, and fire hydrants. All key water facilities are monitored constantly by computer through radio telemetry. Today the District has approximately 6,804 water customers and projects a three percent growth rate per year based on current economic conditions.

The System's six storage tanks have a combined capacity of 5.25 million gallons, providing an approximate two-day water supply for its customers. The tanks are located on McCluski Hill (100,000 and 150,000 gal.), Cochran Road (1 million and 1.5 million gallons), and Norton Road (1 million and 1.5 million gallons). The 1 million gallon Cochran tank was recoated and retrofitted with a seismic valve in fiscal year (FY) 2002-03. In FY 2003-04, the tank was equipped with a seismic valve actuator to prevent major water losses in case of an earthquake. One Norton Road tank was recoated and retrofitted with a seismic valve in FY 2003-04. Additional recoating projects are scheduled. The District owns a fourth site, an undeveloped three-acre parcel on Murray Road on which it plans to construct two 3 million gallon tanks.

Currently, the System's water meters are read manually and recorded on an electronic recording unit (meter reader) that interfaces with the District's accounting system. In 2007, the District purchased a new radio-capable meter reader and will replace older meters over time so that no residential meter will be older than 18 years. The District states that the installation of new meters and replacement of old meters with radio read capabilities will substantially reduce staff time so it will not need to hire additional staff to read meters as the District grows.

The District purchases treated water from the Humboldt Bay Municipal Water District (HBMWD). Established in 1956 to provide municipal and industrial water, HBMWD serves approximately 60% of the population of the County providing treated, potable water for domestic and business use to seven municipalities and fewer than 200 retail

customers, and untreated surface water to one industrial customer. HBMWD has water rights permits from the State Water Resources Control Board through the year 2029 for surface water storage and diversion.²

The HBMWD obtains its water from the Mad River. The HBMWD impounds water in Ruth Lake at the R.W. Matthews Dam from where the HBMWD releases water throughout the year to ensure sufficient supply to downstream users. HBMWD pumps water for municipal and industrial use at its Essex Operations Center located just northeast of Arcata. Municipal water is pumped from the gravel and sand beds beneath the Mad River by four Ranney Wells situated within the riverbed at depths ranging from approximately 60 to 90 feet. The gravel and sands, known as the groundwater aquifer (Aquifer), through which the water is drawn provide a natural filtration process which yields very high quality water as confirmed by the HBMWD's water monitoring and testing that has found very high quality water consistently over the years. The Aquifer is then recharged by surface water from the Mad River. Surface water is diverted directly from the Mad River for industrial customers.³

Water rights permits allow HBMWD to store and divert a combined 75 million gallons per day (MGD) from the Mad River, or 84,000 acre-feet per year (AFY), which represents 8.4% of the average annual runoff from the Mad River Basin. At this level of usage of the average annual runoff, HBMWD anticipates no overdraft of the Mad River Groundwater Basin.⁴

The following table reflects the excess of HBMWD's total water supply compared to total historical demand for years 2000 and 2005 and projected demand through year 2030.

HUMBOLDT BAY MUNICIPAL WATER DISTRICT							
Total Historical and Projected Normal Year Supply and Demand Comparison (AF/Y)							
	2000	2005	2010	2015	2020	2025	2030
Total Supply	84,000	84,000	84,000	84,000	84,000	84,000	84,000
Total Demand	<u>31,154</u>	<u>28,470</u>	<u>29,241</u>	<u>30,086</u>	<u>31,002</u>	<u>31,991</u>	<u>33,067</u>
Excess Supply over Demand	52,846	55,530	54,759	53,914	52,998	52,009	50,933
% Excess Supply over Total Supply	62.9%	66.1%	65.2%	64.2%	63.1%	61.9%	60.6%
Source: Data from the Humboldt Bay Municipal Water District Urban Water Management Plan, 2005.							
Calculations performed by ISRF staff.							

The table above demonstrates that HBMWD anticipates excess water supply of greater than 60% of total water supply through the year 2030, and has the capacity available to increase water sold to users as communities grow.

² Humboldt Bay Municipal Water District Urban Water Management Plan 2005.

³ Ibid.

⁴ Ibid.

The District's historical water usage for years 2000 and 2005, projected water usage through year 2030, and usage as a percent of total supply is presented in the following table.

HUMBOLDT BAY MUNICIPAL WATER DISTRICT							
Total Historical and Projected Normal Year Supply Compared to McKinleyville Usage (AF/Y)							
	2000	2005	2010	2015	2020	2025	2030
Total Supply	84,000	84,000	84,000	84,000	84,000	84,000	84,000
McKinleyville Usage	1,629	1,833	2,014	2,223	2,456	2,711	2,993
McKinleyville Usage as a % Total Supply	1.9%	2.2%	2.4%	2.6%	2.9%	3.2%	3.6%
Source: Data from the Humboldt Bay Municipal Water District Urban Water Management Plan, 2005.							
Calculations performed by ISRF staff.							

The above table demonstrates that the District's historical and projected usage is less than four percent of HBMWD's total supply through the year 2030.

The District purchases treated water under a *Contract for Supply of Municipal Water* (Water Contract) between the HBMWD and the District entered into as of July 1, 1999. The Water Contract extends an agreement dated July 1, 1991 for the purchase of water from the HBMWD by the District. The Water Contract has a 20-year term and includes the District's right to extend the term for an additional 10-year period at prices set by HBMWD from time-to-time by ordinance or otherwise. Under the terms of the Water Contract, HBMWD has the authority to construct, operate and maintain, on the District's behalf, facilities needed to comply with federal and state safe drinking water requirements, up to the point of delivery to the District and to charge the District for such activities.

HBMWD Ordinance No. 16 establishes rates, charges, and conditions of service for municipal customers after such customers have entered into a written contract with HBMWD. In addition, Ordinance No. 16 provides for cost sharing as to debt service, operations/maintenance/capital costs, general reserves, electricity costs, special facilities, and mandated facilities. Ordinance No. 16 also provides for allocation of revenue credits and lists the responsibilities of HBMWD and its municipal customers, among other things. Amendment No. 1 to the Water Contract, effective July 1, 2006, established the peak rate allocation for the District at 2.8 MGD⁵.

The HBMWD diverts water from its million-gallon tank on Essex Hill under the Mad River to the Pump Station. Water is then pumped to the District's six storage tanks where it is gravity-fed to its customers. Water is then pumped into the primary pressure zone, which serves all of the District except McCluski Hill. The District has two reservoir sites (Cochran Road and Norton Road) in the primary pressure zone; each reservoir site has one 1 million gallon and one 1.5 million gallon tank. Customers on McCluski Hill, in the high-pressure zone, access the 250,000 gallons of storage at the hilltop tank site that is pumped from the Cochran Tanks to fill the McCluski Hill tanks.

System Capital Improvements. The District's adopted Budget for FYE June 30, 2011 includes the District's Capital Improvement Program (CIP), a multi-year plan that

⁵ One acre foot (AF) = 325,851 gallons; 2.8 million gallons = 8.59 AF. Source: http://www.western-water.com/Acre-Foot_formula.htm#calculator

identifies capital equipment to be purchased and projects to be funded during a 10-year planning period. The CIP is updated annually with the first year representing the capital budget for the next fiscal year.

The CIP identifies System upgrades such as the Project, a water main replacement project, generator testing, and the construction of a new tank, among other things. Annual budgets for such projects range from \$72.0 thousand to \$3.5 million. The District uses the CIP to prioritize projects and identify the anticipated level of financing required. The District will use the targets set in the CIP, to set rates, fund cash reserves, and build debt capacity to ensure the long-term preservation of System assets.

Staff has reviewed the CIP, which includes the Project, and found that the timing of System expansions and upgrades to meet increased demand and for replacement of aging System components appears to be orderly. Staff finds the District's System capital planning and financing expectation practices to be reasonable from both scheduling and fiscal perspectives.

System User and Rate Data. The number and type of current System users over the last five years are as follows:

NUMBER OF USERS BY CATEGORY					
For Year Ending November 30,	2006	2007	2008	2009	2010
Residential	6,256	6,326	6,404	6,453	6,566
Commercial	204	221	224	231	238
Total	6,460	6,547	6,628	6,684	6,804
% change		1.3%	1.2%	0.8%	1.8%

Source: Application

The trend has remained flat. There are no industrial or other users.

The current System usage and revenues as of June 30, 2010 are as follows:

CURRENT SYSTEM USAGE & REVENUES				
Source:	Application	Application	Application	Application
	Annual Usage (CCF) ⁽¹⁾	% Annual Usage	Gross Annual Revenue	% Gross Annual Revenue
Residential	587,382	87.9%	\$ 853,594	90.7%
Commercial	80,903	12.1%	\$ 87,498	9.3%
Total	668,285	100.0%	\$ 941,092	100.0%

⁽¹⁾ Hundred cubic feet

Source: Application

The current and historical average per residential unit monthly user charge of the System is as follows:

HISTORICAL AND CURRENT AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT					
For Fiscal Year Ending (FYE) June 30,	2006	2007	2008	2009	2010
Residential	\$23.99	\$23.99	\$23.99	\$25.53	\$26.32
% change		0	0	6.42%	3.09%

Source: Application

The average monthly user charge per residential unit was flat between fiscal year ended (FYE) June 30, 2007 and FYE June 30, 2008. As shown above, rates were increased 6.42% in FYE June 30, 2009, and 3.09% in FYE June 30, 2010.

The following table illustrates the District's history of rate increases for the System.

History of Rate Increases			
Ordinance #	Board Approved	Implementation Date	Average Increase
2008-2	December 17, 2008	January 1, 2009	3.0%
2009-1	May 20, 2009	July 1, 2009	5.0%
2010-06	May 20, 2009	May 1, 2010	3.0%

Source: Application

The above table demonstrates that the District has a history of increasing rates when needed. The District has complied with the Proposition 218-required voter approval process and will continue to do so if any increases to rates are proposed. The District stated it has experienced little opposition to rate adjustments and very little dissent throughout the voter-approval process required for rate increases under Proposition 218.

PROJECTED AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT				
For Fiscal Year Ending (FYE) June 30,	2010	2011	2012	2013
Residential	\$26.32	\$ 28.95	\$ 31.85	\$ 32.80
% change		10%	10%	3%

Source: Application

The table above reflects that the current (2010) average monthly user charge per residential unit is \$26.32. Per staff's conversation with the District Finance Manager, the District is currently conducting a rate study and anticipates the above projected average monthly user charges per residential unit.

The table below compares the District's current average monthly System user charge per residential unit as compared to nearby systems as of December 13, 2010.

COMPARABLE RATE DATA		
System Name	System Location	Monthly Average Residential Charge
District	McKinleyville	\$26.32
Humboldt Community Services District	East of Eureka	\$38.20
City of Fortuna	Fortuna	\$42.04
City of Arcata	Arcata	\$43.00
City of Eureka	Eureka	\$49.29

Source: Application

The District's current average monthly user charge is the lowest of the nearby systems as reflected in the table above. As stated above, the District is currently conducting a rate study and anticipates increasing rates as reflected in the previous table.

The chart below shows the top ten current System users and the percent of System revenues:

TOP 10 SYSTEM USERS				
User		% System Use	% System Revenues	Customer Class (Residential/ Commercial/ Industrial/Other)
1	Ocean West Mobile Homes	2.17%	2.098%	Residential
2	McKinleyville Trailer Park	0.93%	0.787%	Residential
3	Murray Road Apartments	0.64%	0.565%	Residential
4	Northwood Mobile Home Park	0.54%	0.474%	Residential
5	Redwood Creek Apartments	0.51%	0.440%	Residential
6	McKinleyville Launderette	0.50%	0.566%	Commercial
7	Holiday Inn Express	0.37%	0.423%	Commercial
8	Airport Business Park	0.34%	0.388%	Commercial
9	Western Living Concepts Managed Care Facility	0.34%	0.258%	Residential
10	Azalea Estates	0.33%	0.281%	Residential
Total		6.67%	6.280%	

Source: Application

All of the top ten users are classified as residential or commercial and account for 6.67% of total System use and 6.28% of the System's total revenue. As stated above, the District has no industrial or other users.

Security and Source of Financing Repayment

Source of Revenue to Repay Proposed ISRF Program Financing:	Subordinate lien on net System revenues and the System's water enterprise fund (Fund)
Applicant Proposed I-Bank Lien Position:	<input type="checkbox"/> Senior <input type="checkbox"/> Senior on parity with existing debt <input type="checkbox"/> Subordinate <input type="checkbox"/> Subordinate Parity <input checked="" type="checkbox"/> Other: <u>Applicant is willing to accept I-Bank's required security position.</u> I-Bank's lien will be subordinate to one existing obligation against District gross revenues described below. All future debt secured against the net revenues of the Fund must be secured either on parity with or subordinate to the I-Bank's lien position.
Existing Debt Senior to Proposed ISRF Program Financing:	State of California Department of Water Resources (DWR) Construction Loan Under the Davis-Grunsky Act
Existing Debt On Parity with Proposed ISRF Program Financing:	None.
Existing Debt Subordinate to Proposed ISRF Program Financing:	An unsecured California Energy Resources Conservation and Development Commission Loan, with a current outstanding balance of \$165,100.
Type of Audited Financial Documents Reviewed:	<input type="checkbox"/> Comprehensive Annual Financial Reports (CAFR) <input checked="" type="checkbox"/> Basic Financial Statements (BFS) <input type="checkbox"/> Other: _____
Audit Years Reviewed:	2006/2007; 2007/2008; 2008/2009
The auditor's reports for all years indicate that the financial statements present fairly, in all material respects, the financial position of the District, and that the results of its operations and the cash flows are in conformity with generally accepted accounting principles.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Adopted Budget(s) Reviewed:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Budget Years Reviewed:	2010/2011
Rate Study Reviewed:	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes
Applicant's Fiscal Year:	July 1 through June 30

Comparative Balance Sheet Analysis

The comparative historical balance sheet analysis for the Fund for the last three fiscal years is as follows:

COMPARATIVE STATEMENT of NET ASSETS						
For Fiscal Year Ending (FYE) June 30,	2008	%	2009	%	2010	%
Assets						
Current Assets						
Cash and Cash Equivalents	\$1,827,278	23.1%	\$1,971,987	25.0%	\$1,940,748	24.2%
Receivables/Receivables Net	\$85,771	1.1%	\$73,981	0.9%	\$42,939	0.5%
Inventory	\$80,901	1.0%	\$76,185	1.0%	\$89,525	1.1%
Prepaid Expense/Prepayments	\$1,481	0.0%	\$0	0.0%	\$0	0.0%
Internal Balances	\$14	0.0%	\$0	0.0%	\$0	0.0%
Total Current Assets	\$1,995,445	25.2%	\$2,122,153	26.9%	\$2,073,212	25.9%
Noncurrent Assets						
Other Assets						
Cash and Cash Equivalents	\$594,242		\$592,111	7.5%	\$592,111	7.4%
Total Other Noncurrent Assets	\$594,242	7.5%	\$592,111	7.5%	\$592,111	7.4%
Capital Assets						
Land and Land Rights	\$344,798	4.4%	\$344,798	4.4%	\$344,798	4.3%
Buildings and Shops	\$149,197	1.9%	\$149,197	1.9%	\$217,870	2.7%
Water Treatment Plant	\$2,623,688	33.1%	\$2,623,688	33.3%	\$2,623,688	32.8%
Water Lines and Pumping Stations	\$6,528,635	82.4%	\$6,557,923	83.2%	\$6,718,045	83.9%
Vehicles	\$242,213	3.1%	\$250,276	3.2%	\$250,276	3.1%
Equipment and Other	\$437,336	5.5%	\$445,216	5.7%	\$420,723	5.3%
Construction in Progress	\$18,588	0.2%	\$27,579	0.4%	\$189,754	2.4%
Less Accumulated Depreciation	(\$5,012,486)	-63.3%	(\$5,233,970)	-66.4%	(\$5,426,081)	-67.8%
Net Capital Assets	\$5,331,969	67.3%	\$5,164,707	65.6%	\$5,339,073	66.7%
Total Noncurrent Assets	\$5,926,211	74.8%	\$5,756,818	73.1%	\$5,931,184	74.1%
Total Assets	\$7,921,656	100.0%	\$7,878,971	100.0%	\$8,004,396	100.0%
Liabilities						
Current Liabilities						
Accounts Payable	\$42,193	0.5%	\$54,256	0.7%	\$69,677	0.9%
Accrued Liabilities	\$8,095	0.1%	\$0	0.0%	\$0	0.0%
Deposits and Refunds	\$12,773	0.2%	\$12,559	0.2%	\$44,720	0.6%
Compensated Absences	\$24,723	0.3%	\$23,009	0.3%	\$29,775	0.4%
Bonds and Loans Due Within One Year	\$84,051	1.1%	\$85,726	1.1%	\$87,443	1.1%
Total Current Liabilities	\$171,835	2.2%	\$175,550	2.2%	\$231,615	2.9%
Noncurrent Liabilities						
Davis Grunsky Act Loan/Due in More Than One Year	\$2,630,923	33.2%	\$2,545,198	32.3%	\$2,457,755	30.7%
Net Other Post Employment Benefit Obligation					\$47,804	0.6%
Compensated Absences	\$39,285	0.5%	\$31,342	0.4%	\$31,657	0.4%
Total Noncurrent Liabilities	\$2,670,208	33.7%	\$2,576,540	32.7%	\$2,537,216	31.7%
Total Liabilities	\$2,842,043	35.9%	\$2,752,090	34.9%	\$2,768,831	34.6%
Net Assets						
Invested in Capital Assets, Net of Related Debt	\$2,616,955	33.0%	\$2,533,783	32.2%	\$2,793,875	34.9%
Restricted	\$594,242	7.5%	\$592,111	7.5%	\$592,111	7.4%
Unrestricted	\$1,868,416	23.6%	\$2,000,987	25.4%	\$1,849,579	23.1%
Total Fund Balance	\$5,079,613	64.1%	\$5,126,881	65.1%	\$5,235,565	65.4%

Source: District Basic Financial Statements

The above Comparative Statement of Net Assets reflects Total Current Assets increased 3.9% over the three year period reviewed due primarily increase in Cash and Equivalents. Total Assets have fluctuated only slightly, with a 1.04% increase in the three years reviewed.

Review of Current Liabilities finds an increase in Accounts Payable of \$27,484, or 65.1%, over the three year period while Total Current Liabilities increased by \$59,780 or 34.8% due to increase in Accounts Payable and \$31,947 increase in Deposits and Refunds. Both Total Noncurrent Liabilities and Total Liabilities decreased over the three year period primarily as a result of debt retirement.

Total Fund Balance increased 3.07% over the three years reviewed with Net Assets—Unrestricted representing 23.1% of Total Assets.

Accounts Receivable Aging

ACCOUNTS RECEIVABLE AGING				
Prepared 11/30/10				
Current	Over 30	Over 60	Over 90	Total
\$ 102,203	\$ 18,966	\$ 3,611	\$ 276	\$ 125,056
81.7%	15.2%	2.9%	0.2%	100.0%

Source: Application

The above chart reflects the System's Accounts Receivable Aging as of November 11, 2010 and illustrates that 81.7% of the accounts receivable are current. The District's management of Accounts Receivable Aging appears satisfactory.

Comparative Revenues and Expenses Analysis

The comparative historical revenues and expenses for the Fund and changes in Fund Balance for the last three fiscal years are summarized below:

COMPARATIVE STATEMENT of REVENUES, EXPENSES, and CHANGES in FUND NET ASSETS						
For Fiscal Year Ending (FYE) June 30,	2008		2009		2010	
% Change				2%		14%
Operating Revenues						
Sale of Water	\$1,337,042	93.2%	\$1,360,169	93.4%	\$1,549,371	93.1%
Other Operating Revenues	98,241	6.8%	95,822	6.6%	115,505	6.9%
Total Operating Revenues	\$1,435,283	100.0%	\$1,455,991	100.0%	\$1,664,876	100.0%
Operating Expenses						
Personnel Services	\$594,924	41.4%	\$661,031	45.4%	\$729,525	43.8%
Purchased Water	\$356,842	24.9%	\$318,159	21.9%	\$533,961	32.1%
Utilities	\$43,873	3.1%	44,775	3.1%	43,997	2.6%
Insurance	\$23,845	1.7%	22,746	1.6%	18,372	1.1%
Other Supplies and Expenses	\$214,287	14.9%	176,332	12.1%	156,581	9.4%
Depreciation and Amortization	\$220,727	15.4%	221,484	15.2%	224,098	13.5%
Total Operating Expenses	\$1,454,498	101.3%	\$1,444,527	99.2%	\$1,706,534	102.5%
Operating Income (Loss)	(\$19,215)	-1.3%	\$11,464	0.8%	(\$41,658)	-2.5%
Non-Operating Revenues (Expenses)						
Intergovernmental Grants	\$524					
Gain (Loss) on Disposal Capital Assets	\$99				(\$1,155)	
Interest Expense	(\$58,130)		(\$56,336)		(\$54,701)	
Interest and Investment Revenue	\$114,973		\$76,662		\$39,897	
Net Non-operating Revenues (Expenses)	\$57,466		\$20,326		(\$15,959)	
Income (Loss) Before Capital Contributions and Transfers	\$38,251		\$31,790		(\$57,617)	
Capital Contributions and Transfers						
Capital Contributions	\$40,478		\$15,478		\$166,301	
Total Capital Contribution and Transfers	40,478		15,478		166,301	
Change in Net Assets	\$78,729		\$47,268		\$108,684	
Total Net Assets, July 1	\$5,000,884		\$5,079,613		\$5,126,881	
Total Net Assets, June 30	\$5,079,613		\$5,126,881		\$5,235,565	

Source: District Basic Financial Statements (BFS)

Total Operating Revenues increased 16.0% over the three years reviewed, in part due to a 15.9% increase in Sale of Water. Connection fees were not reported separately in any of the three years reviewed. The District stated by email that such fees were reported under Other Operating Revenues and provided the following data: connection fees in FYs 2008, 2009, and 2010 in the amount of \$11,396 and \$15,478, and \$18,480, respectively.

Total Operating Expenses generally increased over the three years reviewed with a net increase of 17.3%. The largest changes were in Personnel Services, which increased by 22.6% and Purchased Water, which increased by 49.6%. The increase in Purchased Water expense was due to an increase in the cost of water purchased from HBMWD.

Change in Net Assets was positive in all three years.

Budget

Review of the Budget for FYE June 30, 2011, adopted on June 16, 2010, shows total revenues of \$2,175,586 and total expenses and expenditures of \$1,976,186, resulting in an excess of revenue over expenditures of \$199,400. Budgeted revenues are higher than historical revenues primarily as a result of the District's anticipated approval of rate increases. The District conservatively budgeted expenses higher expenses when compared to historical expenses. Historical operations rather than the Budget were relied upon to determine cash flow for the proposed I-Bank loan. The Project and the proposed I-Bank loan are included in the Budget.

Cash Flow and Debt Service Analysis

The current and proposed outstanding Fund obligations are as follows:

OBLIGATIONS						
Original Issue	Dated	Series	Final Maturity	Maximum Annual Debt Service (MADS) ⁽¹⁾	Outstanding as of 11/30/10	Lien Priority
Davis-Grunsky (DWR)	1971	Davis-Grunsky Construction Loan	2034	\$158,314	\$2,153,195	Pledge of District's gross revenue
Proposed I-Bank	2011	Installment Sales Agreement	2030	\$72,000	\$0	Net System revenue pledge and lien on the Fund subordinate to gross District revenue pledge to DWR
Energy Commission Loan of Federal Funds	2010	Energy Conservation Assistance Account Loan Agreement	2026	\$12,390	\$165,100	Unsecured
Total				\$242,704	\$2,318,295	

(1) MADS means maximum annual debt service.

(2) Proposed loan of \$1,000,000 was amortized @ 3.37% for 20 years and rounded.

Date of Debt:	November 1, 1971
Name of Debt:	Construction Loan Under the Davis-Grunsky Act
Issuer:	State of California Department of Water Resources (DWR)
Security:	No specific District revenue is pledged as security for this loan. However, the District is obligated to levy taxes or assessments for the loan repayments should it have insufficient resources available to make the scheduled payments. The DWR contract with the District does not establish conditions for the issuance of additional debt other than the prior permission of the State to any encumbrance against property connected to the DWR project. As a condition to granting the approval of other financing resources, DWR routinely requires that other debt be clearly subordinated to the DWR's security. As a result, the I-Bank's lien will be clearly subordinated to the lien securing the DWR obligation.
Rates and Charges Covenant:	No specific rates and charges covenant is established, though the District is obligated to levy taxes or assessments for the loan repayments should it have insufficient resources available to make the scheduled payments.
Allows Senior Debt?	[X] Not mentioned specifically; see above requirement for DWR approval for any liens related to the DWR project. [] No [] Yes
Allows Parity Debt?	[X] Not mentioned specifically; see above requirement for DWR approval for any liens related to the project. [] No [] Yes
Allows Subordinate Debt?	[X] Not mentioned specifically; see above requirement for DWR approval for any liens related to the project. [] No [] Yes
Reserve Fund(s) and/or Rate Stabilization Fund To Be Maintained? Amount?	[] No [X] Yes. Explain: DWR required the District to fund a reserve fund over time. The current reserve requirement of \$592,111 is reported on the District's Statement of Net Assets as Net Assets Reserved. DWR confirmed by email dated January 28, 2011, that the District is in compliance with the terms of the contract.
Reserve Fund Required for Proposed Senior or Parity Debt?	[] Not mentioned specifically; see above requirement for DWR approval for any liens related to the project. [X] No [] Yes
In Compliance With All Terms and Conditions?	The District reports in its application that it is in compliance with all loan terms and conditions and DWR has also confirmed the District's compliance in an email dated January, 28, 2011.

Date of Debt:	June 15, 2010
Name of Debt:	Energy Conservation Assistance Account Loan
Issuer:	California Energy Resources Conservation and Development Commission (Commission) through federal funding made available through the American Recovery and Reinvestment Act of 2009 (ARRA)
Security:	None. The loan agreement prohibits liens or encumbrances on the Project. Per email dated January 10, 2011, California Energy Commission Senior Staff Counsel indicates that I-Bank's lien on the net System revenues would not violate that provision.
Rates and Charges Covenant:	N/A
Allows Senior Debt?	<input checked="" type="checkbox"/> Not mentioned <input type="checkbox"/> No <input type="checkbox"/> Yes
Allows Parity Debt?	<input checked="" type="checkbox"/> Not mentioned <input type="checkbox"/> No <input type="checkbox"/> Yes
Allows Subordinate Debt?	<input checked="" type="checkbox"/> Not mentioned <input type="checkbox"/> No <input type="checkbox"/> Yes
Reserve Fund(s) and/or Rate Stabilization Fund To Be Maintained? Amount?	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes. Explain
Reserve Fund Required for Senior or Parity Debt?	<input checked="" type="checkbox"/> Not mentioned <input type="checkbox"/> No <input type="checkbox"/> Yes
In Compliance With All Terms and Conditions?	The District reports in its application that it is in compliance with all loan terms and conditions and the Commission has also confirmed the District's compliance in an email dated January 10, 2011

All other obligations reported in the District's BFS are related to its other non-System governmental activities (i.e., parks and recreation, lighting, special revenue projects, and general administrative services) or its wastewater enterprise.

Historical Fund cash flow and debt service analysis for the proposed financing is presented below:

CASH FLOW				
For Fiscal Year Ending (FYE) June 30,	2008	2009	2010	2010 with Rate Stabilization Account
Operating Income (Loss)	(\$19,215)	\$11,464	(\$41,658)	(\$41,658)
Add back Depreciation Expense	220,727	221,484	224,098	224,098
Rate Stabilization Account				60,000
Add Interest Revenue	114,973	76,662	39,897	39,897
Cash Available for Debt Service with Connection Fees	\$316,485	\$309,610	\$222,337	\$282,337
Less Impact/Connection Fees	(\$11,396)	(\$15,479)	(\$18,480)	(\$18,480)
Cash Available for Debt Service w/o Connection Fees	\$305,089	\$294,131	\$203,857	\$263,857
Debt Service Calculation				
Senior Debt Service @ MADS⁽¹⁾				
Existing Debt: Davis Grunsky Loan (DWR)	\$ 158,314	\$ 158,314	\$ 158,314	\$ 158,314
Total Senior MADS	\$ 158,314	\$ 158,314	\$ 158,314	\$ 158,314
Senior Debt Service Coverage Ratio w Connection Fees	2.00	1.96	1.40	1.78
Senior Debt Service Coverage Ratio w/o Connection Fees	1.93	1.86	1.29	1.67
Subordinated I-Bank Debt Service (MADS)				
Proposed CIEDB ⁽²⁾	72,000	72,000	72,000	72,000
Total Senior and I-Bank Debt Service	\$ 230,314	\$ 230,314	\$ 230,314	\$ 230,314
Total Senior & I-Bank Debt Service w Connection Fees	1.37	1.34	0.97	1.23
Total Senior & I-Bank Debt Service w/o Connection Fees	1.32	1.28	0.89	1.15
Other Debt Service (MADS)				
California Energy Commission ARRA Loan (2010)	\$ 12,390	\$ 12,390	\$ 12,390	\$ 12,390
Combined Total Debt Service	\$ 242,704	\$ 242,704	\$ 242,704	\$ 242,704
Combined Total Debt Service Ratio w Connection Fees	1.30	1.28	0.92	1.16
Combined Total Debt Service Ratio w/o Connection Fees	1.26	1.21	0.84	1.09

⁽¹⁾ Maximum Annual Debt Service

⁽²⁾ Calculated as \$1,000,000 @ 3.37% for 20 years

The above table demonstrates the District's ability to service the proposed and existing debt in FYs 2008 and 2009. However, in FY 2010, the District experienced a significant increase in the cost of purchased water, as discussed above. The District has agreed to establish, fund and maintain a rate stabilization account in the amount of \$60,000 prior to execution of the ISRF Program installment sale agreement and has sufficient cash on hand to fund this account.

Compliance with I-Bank Underwriting Criteria

- I-Bank financing is proposed to be secured by a subordinate lien on net System revenues and the Fund. Historical cash flow for FYs 2008 and 2009 exceeds the minimum 1.10 times aggregate debt coverage ratio with connection fees and exceeds 1.0 times aggregate debt coverage without connection fees. However, the most recent District basic financial statement reflects that the District did not meet this minimum debt service coverage ratio in FY 2009/2010. For this reason, I-Bank staff is recommending approval of this financing proposal subject to the District's approval, establishment and funding of a rate stabilization fund in the amount of \$60,000 prior to the execution of the ISRF Program installment sale agreement.

- The Installment Sale Agreement will include a covenant by the District to maintain minimum System debt service coverage ratios and, to the extent necessary, the rate stabilization fund. The Installment Sale Agreement will prohibit additional senior debt, limit additional debt secured on parity with the ISRF Program financing to circumstances where net System revenues (adjusted for adopted rate increases and system expansions as permitted by the Underwriting Criteria) will provide minimum future debt service coverage of 1.20x all indebtedness secured by liens against the net System revenues that are on parity or senior to the ISRF Program financing, and limit the aggregate debt to be paid from net System revenues to circumstances where net System revenues (adjusted for adopted rate increases and system expansions as permitted by the Underwriting Criteria) will provide minimum future debt service coverage of 1.10x all indebtedness secured by liens against or payable from net System revenues.
- Revenues derived from the top ten System ratepayers do not exceed 50% of annual System revenues.
- Revenues derived from any single ratepayer do not exceed 15% of the System revenues.
- The District has the power to establish and enact rates and charges without the approval of any other governing body.

LITIGATION, MANAGEMENT AND ENVIRONMENTAL

Litigation

The District's application indicates that there is no current or anticipated litigation or material controversy that would materially affect its ability to construct the Project or repay the proposed ISRF Program financing.

Project Construction and Management Ability

The District has awarded the single construction contract for the Project to Wahlund Construction Company, Inc., which has successfully completed several water and wastewater projects in the area including the District's Head Works Improvement Project during the 1990s. Prior to awarding the contract, the District and the engineering firm of Winzler and Kelly reviewed Wahlund's license and bonding information and found it to be current and determined that the company's bid was complete and responsive and that the company had promised to fulfill all the bidding instruction requirements.

The District has qualified, trained and licensed staff in charge of operations at the existing Pump Station. The Project improvements are increasing capacity at the Pump Station and include technology the District is experienced in operating and maintaining. The District has the administrative and management ability to successfully operate and maintain the Project.

Prior I-Bank Experience. None

California Environmental Quality Act (CEQA)

Through the CEQA process, the Project was determined to be categorically exempt as minor alterations of existing facilities, replacement of existing pump stations, and installation of small new equipment. The District filed a single Notice of Exemption for the Project with the Humboldt County Clerk on February 23, 2009.

SCORING CRITERIA FOR PRIORITIZING PROJECTS			
POINT CATEGORY	ANALYSIS	MAX PTS	PTS
Project Impact			
Job Creation/Retention	The District states that the Project will ensure at least one full-time water staff classified as Utility Worker II. The District further indicates that the community will have increased capacity to support planned industrial/commercial growth including three sites near the Arcata-Eureka Airport. Since the District provided no written confirmation or feasibility study documenting job creation/retention as a result of the Project, no points were awarded for the Job Creation/Retention category.	30	0
Economic Base Employers	The District states that the community will have increased capacity to support planned commercial growth, which may result in Economic Base Employers. However, the District provided no documentation supporting the creation/retention of jobs with an Economic Base Employer as a result of the Project; therefore no points were awarded for the Economic Base Employers category.	10	0
Community Employment Development Plan	The District supports the local Water Operations Program (WOP) offered at College of the Redwoods (College) located south of McKinleyville that trains future water operators. The District provides hands-on training at District facilities to WOP students and hires the College's WOP graduates. However, the District provided no documentation supporting employment opportunities created or retained as a result of the Project; therefore no points were awarded for the Community Employment Development Plan category.	10	0
Quality of Life/Community Amenities	<p>The Project is a necessary and vital capital improvement that will contribute to an improved quality of life by ensuring continued compliance with state water quality standards.</p> <p>The Project will enhance the availability of water supply during peak periods, for general use and will contribute to public safety by improving water availability for fire flows.</p> <p>By providing reliable water service at adequate pressure to serve consumers, the Project will support continued growth in the area and will also contribute to the long-term economic competitiveness of the community by addressing the need for an upgraded water system and adequate public water facilities to accommodate workforce housing and provide opportunities of businesses to grow as stated in the ED element.</p>	30	30

Community Economic Need			
Because McKinleyville is an unincorporated community, McKinleyville census designated plan (CDP) data was used to calculate Community Economic Needs points below.			
Unemployment Rate	The McKinleyville CDP's 2009 unemployment rate was 12.6%, which is 110.5% of the State's rate of 11.4%.	20	0
Median Family Income	According to the 2000 Census, the McKinleyville CDP's median family income was \$42,926, which is 81.0% of the State's median family income of \$53,025.	15	0
Change in Labor Force Employment	The McKinleyville CDP's 2009 change in labor force employment rate was -1.69%; all negative changes in the change in labor force employment rate are awarded 10 points.	10	10
Poverty Rate	According to the 2000 Census, the McKinleyville CDP's poverty rate was 14.9%, which is 104.9% of the State's poverty rate of 14.2%.	10	0
Land Use, Environmental Protection and Approved Housing Element			
Land Use	The Project meets the second priority for land use since it develops vacant and under-utilized land within existing rural areas presently served by streets, water, sewer and other public services while preserving open space, historic buildings, recreational opportunities and the distinct identities of neighborhood.	20	15
Environmental Protection	Replacing the five Existing Pumps with two new vertical turbine pumps will increase energy efficiency in the delivery of water. The District states in its Application that the Project includes design, materials, and techniques that will result in energy conservation and reduction of greenhouse gasses through the increased efficiency of the New Pumps and the variable frequency drives. The District estimates that the Project will save approximately 48,900 pounds of carbon dioxide equivalent greenhouse gas emissions that will help meet the state's AB 32 goals for greenhouse gas reduction to combat global warming conditions.	10	5
Housing Element	The County has an approved Department of Housing and Community Development General Plan Housing Element.	10	10
Leverage			
Leverage	The District and the Commission will contribute \$267,772 to the Project compared to \$1,000,000 in ISRF Program funding, which provides a leverage ratio of 0.267 to 1.0.	15	6
Readiness			
Readiness	Construction was started in September 2010.	10	10
TOTAL		200	86

STAFF RECOMMENDATIONS

Staff recommends approval of Resolution No. 11-04 authorizing financing to the McKinleyville Community Services District for the Project as follows:

1. **Applicant/Borrower:** McKinleyville Community Services District.
2. **Project:** Ramey Pump Station Upgrade Project.
3. **Amount of Financing:** Not to exceed \$1,000,000.
4. **Maturity:** Not to exceed 20 years.
5. **Funding Availability:** ISRF Program financing commitment is subject to the availability of funds from either, or a combination of, proceeds of a revenue bond or I-Bank equity funds. The Borrower shall execute the ISRF Program financing agreement within 210 days of I-Bank Board's approval of a resolution authorizing the proposed financing, or the commitment of funds may be cancelled by the I-Bank.
6. **Repayment/Security:** Subordinate lien on net System revenues and the System's water enterprise fund (Fund).
7. **Interest Rate:** 67% of Thompson's Municipal Market Data Index for an "A" rated tax-exempt security with a weighted average life similar to the I-Bank financing based on the rates on February 1, 2011.
8. **Fees:** Financing origination fee of 0.85% of the I-Bank financing and an annual fee of 0.30% of the outstanding principal balance.
9. **Type of Financing Agreement:** Installment Sale Agreement.
10. **Financing Agreement:** The Installment Sale Agreement shall include, among other things, the following provisions:
 - a. Borrower shall maintain rates and charges and, if necessary, a rate stabilization fund in an amount sufficient to ensure 1.20 times aggregate annual debt service ratio for senior and parity obligations.
 - b. Net System revenues may not be pledged to secure future financings on a basis senior to the pledge provided to secure the ISRF Program Financing.
 - c. Net System revenues may be pledged to secure future financings on a parity basis with the ISRF Program financing if net System revenues (adjusted for adopted rate increases and system expansion) will provide a minimum future debt service coverage of 1.20 times maximum annual debt service on all outstanding senior and parity debt, inclusive of the proposed financing.
 - d. Net System revenues may be pledged to secure future financings on a subordinate basis to the ISRF Program financing or on an unsecured basis if net System revenues (adjusted for adopted rate increases and System expansion) will provide a minimum aggregate future debt service coverage of 1.10 times maximum annual debt service on all outstanding debt payable from net System revenues, inclusive of the proposed financing.
 - e. Borrower shall be authorized to prepay all or a portion of the outstanding principal balance according to the following: 102% of the outstanding principal balance if the prepayment date is on or after ten years, but less than eleven years, from the effective date of the Agreement, or 100% of the outstanding

principal amount of the I-Bank bonds to which the Borrower's loan is pledged as repayment and scheduled to be called for redemption as a result of the prepayment plus accrued interest on the bonds to be redeemed as of the date scheduled for redemption (Redemption Amount), whichever is greater; 101% of the outstanding principal balance if the prepayment date is on or after eleven years, but less than twelve years, from the effective date of the Agreement or the Redemption Amount, whichever is greater; or without premium if the prepayment date is twelve years or more from the effective date of the Agreement or the Redemption Amount, whichever is greater. The Borrower may on any date provide for a legal defeasance of the principal amount outstanding and any additional payment then due.

- f. Borrower shall agree to indemnify I-Bank and its directors, officers and employees from any liability arising from the Installment Sale Agreement or from construction or operation of the Project.

11. Conditions Precedent to Agreement Execution: Receipt by I-Bank of:

- a. Evidence acceptable to the I-Bank of the approval, establishment and funding of a rate stabilization fund in the amount of \$60,000.
- b. An adopted Borrower resolution authorizing the execution and delivery of the Installment Sale Agreement and approving certain other matters in connection therewith.
- c. An opinion of legal counsel to the Borrower that the Borrower has the legal authority to enter into the Installment Sale Agreement, that there is no litigation currently pending or threatened that would in any way affect pledged revenues, that the Installment Sales Agreement is a legal, binding and enforceable agreement of the Borrower, and that the Borrower is not in default of any agreement or obligation secured by the revenues of the System.
- d. A Tax Certificate, executed by Borrower.

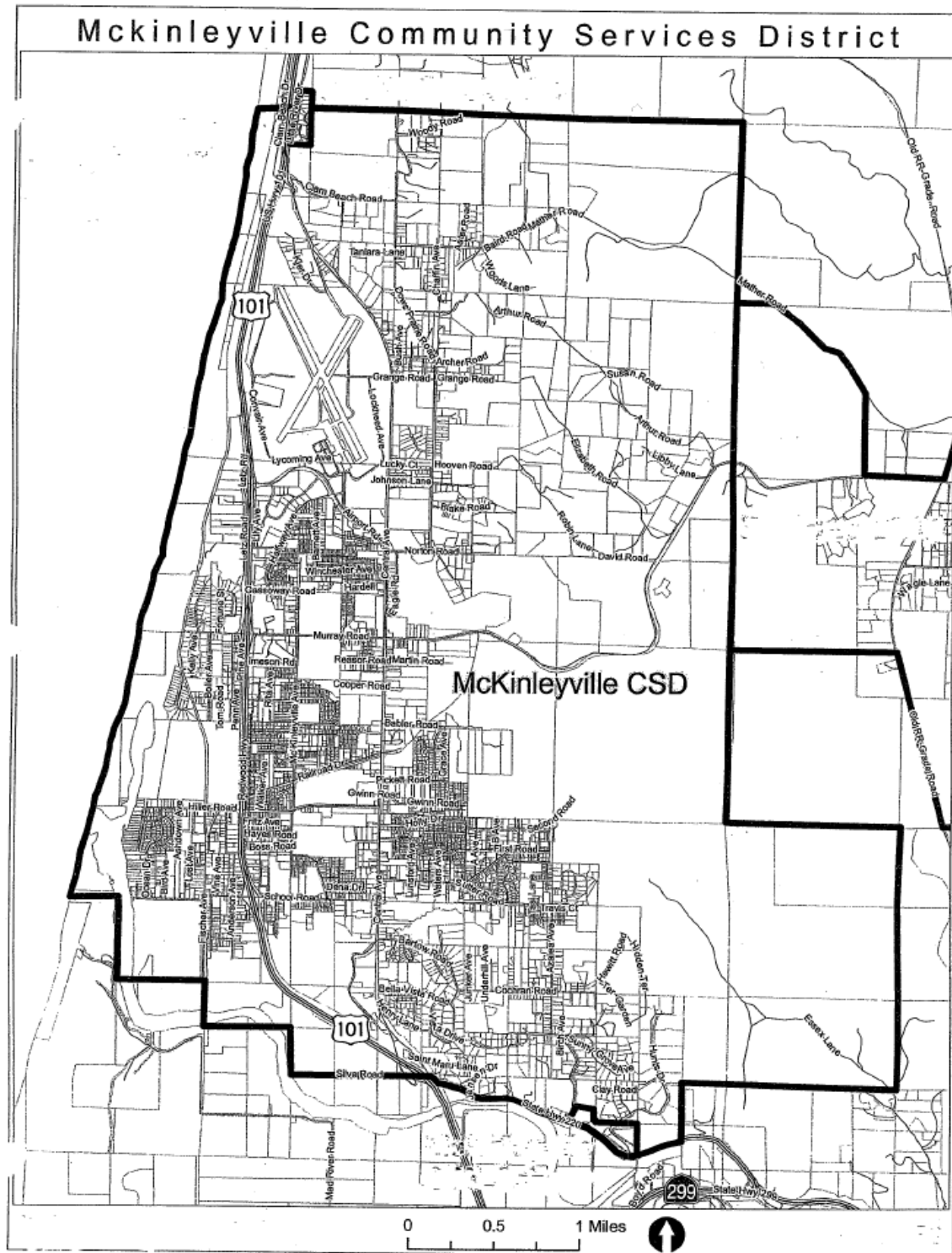
12. Conditions Precedent to Disbursement: The conditions to each disbursement of I-Bank funds shall include but are not required to be limited to:

- a. A fully executed Installment Sale Agreement consistent with the terms hereof.
- b. A certificate of the Borrower, executed by the Borrower's legal counsel or other individual acceptable to the I-Bank that the Borrower has:
 - i. obtained any and all lands, rights-of-ways, lot line adjustments, easements, and orders of possession, which are required for construction;
 - ii. obtained all required construction permits; and
 - iii. awarded all construction contracts necessary for the construction of the Project pursuant to competitive bidding requirements and Borrower's procedures normally required for similar construction projects; and that
 - iv. Project costs are consistent with the Sources and Uses listed in the staff report recommending financial assistance for the Project presented to the I-Bank Board.
- c. For each related construction contract:
 - i. A written statement by the Borrower, executed by the Borrower's legal counsel or other individual acceptable to the I-Bank that the contract:

1. requires payment of prevailing wage rates and compliance with Chapter 1 (commencing with Section 1720) of Part 7 of Division 2 of the California Labor Code;
 2. requires payment of workers' compensation insurance; and
 3. includes applicable nondiscrimination provisions.
 - ii. A copy of the fully executed construction contract.
 - iii. A copy of the contractor's payment and performance bonds.
 - d. Documentation acceptable to the I-Bank that a rate stabilization account has been established and funded in the amount of \$60,000.
- 13. Conditions Precedent to Final Disbursement:** The conditions to final disbursement of I-Bank funds shall include but are not required to be limited to:
- a. Recorded Notice of Completion or other evidence of completion for each Project component.
 - b. Lien waivers for the Project, or passage of the applicable statutory time periods for filing mechanics and other similar liens.
 - c. Certification that the Project has been completed in accordance with the approved plans and specifications, and that the completed Project is consistent with the definition of Project in the staff report recommending financial assistance for the Project presented to the I-Bank Board and is acceptable to the Borrower.
 - d. Certification that the Borrower has obtained all licenses and permits (including operating permits), and approvals from any governmental agency or authority having jurisdiction over the Borrower in connection with the Project.
- 14. Financial and Other Reporting Requirements:**
- a. Annual Borrower audited financial statements, due to the I-Bank within 210 days of fiscal year end.
 - b. Other information as the I-Bank may request from time to time.

EXHIBIT 1 - Project Location Maps

Location of the District



Location of the Project

